Report of Earnings and Financial Statements for the Six Months Ended September 30, 2009

November 2, 2009

Listed company's name: **Kawasaki Heavy Industries, Ltd.**
Listed on: 1st sections of TSE, OSE, NSE
Stock code: 7012
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Scheduled dates:
Submission of quarterly securities filing: November 12, 2009
Commencement date of dividend payments -

1. Consolidated Financial Results for the Six Months Ended September 30, 2009 (April 1, 2009 to September 30, 2009)

(Amounts in millions of yen rounded down to the nearest million yen)

(1) Operating Results

(Percentage figures represent changes versus the year-ago period)

	Net sales		Operating income		Recurring profit		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Six months ended September 30, 2009	516,053	(21.0)	(6,167)	-	(1,223)	-	(6,294)	-
Six months ended September 30, 2008	652,923	-	24,353	-	30,718	-	12,335	-

	Earnings per share	Earnings per share – diluted
	yen	yen
Six months ended September 30, 2009	(3.77)	-
Six months ended September 30, 2008	7.39	7.24

(2) Financial Condition

	Total assets	Net assets	Ratio of shareholders' equity to total assets	Net assets per share
	million yen	million yen	%	yen
September 30, 2009	1,368,010	289,607	20.8	170.60
March 31, 2009	1,399,770	295,245	20.7	174.10

Note: Shareholders' equity: September 30, 2009: 284,598 million yen
March 31, 2009: 290,440 million yen

2. Dividends

Record date or term	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	End of financial year	Full year
	yen	yen	yen	yen	yen
Year ended March 31, 2009	-	0.00	-	3.00	3.00
Year ending March 31, 2010	-	0.00			
Year ending March 31, 2010 (forecast)			-	3.00	3.00

Note: Revision of dividend forecast during the six months ended September 30, 2009: None

3. Forecast of Consolidated Earnings for the Year Ending March 31, 2010 (April 1, 2009 to March 31, 2010)

(Percentage figures represent changes versus the year-ago period)

	Net sales		Operating income		Recurring profit		Net income		Earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	1,200,000	(10.3)	5,000	(82.5)	10,000	(74.1)	3,000	(74.4)	1.79

Note: Revision of earnings forecast during the six months ended September 30, 2009: Yes

4. Other Information

1) Changes affecting the status of material subsidiaries (scope of consolidation): None

2) Use of simplified accounting methods and/or accounting methods specific to the preparation of quarterly consolidated financial statements: Yes
Note: For details, see “4. Other Information” on page 7 in the “Qualitative Information and Financial Statements” section.

3) Changes in accounting principles, procedures, and methods of presentation used in the preparation of quarterly consolidated financial statements:
(1) Changes in accord with revisions to accounting standards: Yes
(2) Changes other than (1) above: None
Note: For details, see “4. Other Information” on page 7 in the “Qualitative Information and Financial Statements” section.

4) Number of shares issued (common stock)
(1) Number of shares issued at end of period (treasury stock included):
September 30, 2009: 1,669,629,122 shares
March 31, 2009: 1,669,629,122 shares
(2) Number of shares held in treasury at end of period:
September 30, 2009: 1,424,175 shares
March 31, 2009: 1,394,288 shares
(3) Average number of outstanding shares:
Six months ended September 30, 2009: 1,668,216,376 shares
Six months ended September 30, 2008: 1,668,285,278 shares

***Appropriate Use of Financial Forecasts and Other Important Matters**

Forward-Looking Statements

1. The Company has revised the consolidated earnings forecasts issued on April 28, 2009. For details, see “3. Consolidated Earnings Outlook” on page 7 in the “Qualitative Information and Financial Statements” section.

2. These materials contain various forward-looking statements and other forecasts regarding performance and other matters. Such statements are based on information available at the time of preparation. Actual results may differ from those expressed or implied by forward-looking statements due to a range of factors. For the assumptions underlying the earnings forecasts presented and other information regarding the use of such forecasts, refer to “3. Consolidated Earnings Outlook” on page 7 in the “Qualitative Information and Financial Statements” section.

Qualitative Information and Financial Statements

1. Consolidated Operating Results

In the six months to September 30, 2009 (first half of the fiscal year ending March 31, 2010), the Japanese economy emerged from the crisis conditions of the latter half of last fiscal year but remained under pressure from the looming specter of yet deeper recession brought on by a capital spending and export slump, ongoing yen appreciation, a deteriorating employment environment, and a downturn in consumer spending.

The global economy, particularly Europe and the Americas, likewise continue to languish, although some emerging economies showed signs of recovery.

This adverse operating environment weighed heavily on KHI Group businesses, all of which continued to experienced declines in order bookings throughout the fiscal first half.

Although the Shipbuilding segment managed to achieve sales growth, overall sales declined. Profits declined across all business segments, with the exception of the Aerospace and Shipbuilding segments, under the weight of yen appreciation and downturns in European and American markets.

Relative to the first half of fiscal 2009, the Group’s consolidated order bookings declined ¥314.2 billion to ¥403.0 billion while consolidated net sales decreased ¥136.8 billion to ¥516.0 billion. The Group consequently incurred a consolidated operating loss of ¥6.1 billion, recurring loss of ¥1.2 billion, and net loss of ¥6.2 billion. These losses respectively represent decreases of ¥30.5 billion, ¥31.9 billion, and ¥18.6 billion from fiscal 2009’s first-half operating, recurring, and net incomes.

Consolidated operating performance in the six months to September 30, 2009, is summarized by segment below.

Effective from the first quarter of fiscal 2010, the Construction Machinery business, previously part of the Rolling Stock segment (formerly the Rolling Stock & Construction Machinery segment), is included in the Other segment, as disclosed below under the heading “Information by industry segment” on page 13 (subsection (5) 1) of “5. Consolidated Financial Statements”).

Shipbuilding

With no newbuilding orders received in the fiscal first half, consolidated order bookings decreased ¥55.7 billion year on year to ¥2.7 billion.

Consolidated net sales increased ¥11.5 billion year on year to ¥65.2 billion, boosted by a spate of sales of large vessels.

Operating income increased ¥1.1 billion year on year to ¥1.4 billion on improved margins reflecting a decline in raw materials costs and other factors.

Rolling Stock

Consolidated order bookings included orders from Singapore for subway cars but declined to ¥44.5 billion, down ¥91.5 billion from the first half of fiscal 2009, which was marked by an influx of large orders.

Consolidated net sales fell ¥3.5 billion year on year to ¥80.1 billion due mainly to resegmentation of the Construction Machinery business, despite growth in sales of rolling stock to JR Group and overseas sales of rolling stock.

Consolidated operating income decreased ¥3.7 billion year on year to ¥3.2 billion due to lower margins on export deals as a result of yen appreciation.

The above year-on-year changes reflect the impact of the resegmentation involving the Construction Machinery business. Retroactively adjusted to reflect the resegmentation, the Rolling Stock segment had consolidated order bookings of ¥119.9 billion, consolidated net sales of ¥64.5 billion, and operating income of ¥6.5 billion in the first half of fiscal 2009.

Aerospace

Consolidated order bookings decreased ¥11.8 billion year on year to ¥46.5 billion as a result of decreased orders for component parts for the Boeing 777 and other aircraft.

Consolidated net sales were down ¥21.9 billion year on year to ¥73.3 billion, largely due to decreased sales to Japan's Ministry of Defense.

Despite the decline in sales, consolidated operating income was up ¥2.0 billion year on year to ¥2.6 billion, due in part to adjustments to expense recognition timing resulting from changes to the Boeing 787's development schedule.

Gas Turbines & Machinery

Consolidated order bookings decreased ¥19.4 billion year on year to ¥99.8 billion as a result of decreased orders for marine diesel engines, marine propulsion systems, and other items.

Consolidated net sales declined ¥8.3 billion year on year to ¥83.4 billion, despite strong sales of components for aircraft engines, due to lower sales of marine turbines and gas compressor equipment and lower sales to Japan's Ministry of Defense.

Consolidated operating income decreased ¥4.1 billion year on year to ¥600 million, largely as a result of yen appreciation and the sales decline.

Plant & Infrastructure Engineering

Despite a diverse influx of plant orders, consolidated order bookings fell to ¥32.5 billion, down ¥16.5 billion from the first half of fiscal 2009, when the segment booked a large order for LNG storage tanks.

Consolidated net sales decreased ¥10.9 billion year on year to ¥35.7 billion, largely reflecting a falloff in overseas sales of large plant installations.

Consolidated operating income decreased ¥3.5 billion year on year to ¥1.0 billion, largely as a result of the sales decline.

Consumer Products & Machinery

Consolidated net sales fell ¥71.3 billion year on year to ¥106.2 billion amid a decline in European and North American motorcycle sales coupled with a falloff in industrial robots sales.

The sales decline, compounded by yen appreciation against the US dollar, the euro, and other currencies led to a consolidated operating loss of ¥16.6 billion, ¥16.9 billion worse than the year-earlier first-half operating loss, despite progress made in boosting product margins and cutting fixed costs and expenses.

Hydraulic Machinery

Consolidated order bookings fell ¥27.5 billion year on year to ¥27.5 billion, mainly as a result of diminished demand from construction machinery makers.

Consolidated net sales were down ¥18.2 billion year on year to ¥29.0 billion, largely due to decreased sales to construction machinery makers.

Operating income decreased in tandem with sales, down ¥3.0 billion year on year to ¥1.9 billion.

Other Operations

Consolidated net sales declined ¥13.9 billion year on year to ¥42.8 billion.

We booked a consolidated operating loss of ¥300 million, ¥2.1 billion below year-earlier first-half operating income, largely due to the Construction Machinery business’s resegmentation.

The above year-on-year changes reflect the impact of the resegmentation involving the Construction Machinery business. Retroactively adjusted to reflect the resegmentation, the Other segment had consolidated net sales of ¥75.9 billion, and operating income of ¥2.3 billion in the first half of fiscal 2009.

2. Consolidated Financial Position

At September 30, 2009, consolidated assets totaled ¥1,368.0 billion, a decrease of ¥31.7 billion from March 31, 2009. The decrease was attributable to reduction in trade receivables resulting from collection of receivables and reduced sales. The decrease in receivables outweighed growth in property, plant and equipment due to capital investment and growth in work-in-process stemming from progress toward completion of existing contracts.

Consolidated liabilities totaled ¥1,078.4 billion at September 30, a decrease of ¥26.1 billion from March 31, 2009. The decrease was attributable to reduction in trade payables, partially offset by growth in borrowings and other items.

Consolidated net assets decreased ¥5.6 billion from March 31, 2009, to ¥289.6 billion at September 30, largely as a result of the first-half net loss and payment of dividends.

3. Consolidated Earnings Outlook

Recovery signs dot the economic landscape but have yet to spark a concerted revival from the economic downturn brought on by the global financial crisis. The Company inevitably expects the harsh conditions its faces to persist, particularly in mass-production businesses, but will forge ahead with the rebuilding of its earnings base with a view to returning to a sustained-growth trajectory.

The Company now forecasts consolidated net sales of ¥1,200.0 billion for the full fiscal year, down ¥40.0 billion relative to the forecast issued in April, due to anticipated underperformance relative to forecasts in the Consumer Products & Machinery and Aerospace segments.

Although the Company expects the decline in net sales to impact on profits, it intends to follow through with efforts to improve profitability throughout its operations by cutting fixed costs and expenses and increasing productivity. For the full fiscal year, the Company therefore forecasts consolidated operating income of ¥5.0 billion and consolidated recurring profit of ¥10.0 billion, unchanged from the forecasts issued in April. The forecast of net income has been revised downward to ¥3.0 billion to account for the booking of extraordinary losses.

The Company's earnings forecast assumes exchange rates of ¥90 to the US dollar and ¥130 to the euro.

4. Other Information

1) Changes affecting the status of material subsidiaries (scope of consolidation) during the period
Not applicable

2) Use of simplified accounting and/or accounting procedures specific to preparation of quarterly consolidated financial statements

Simplified accounting

(1) Bad debt estimation method for general claims
The Company estimates the value of uncollectible general claims based on the preceding fiscal year's actual credit loss rate, unless the credit loss rate is deemed to have substantially changed relative to the historical rate calculated at the end of the preceding fiscal year.

(2) Inventory valuation method
The Company estimates quarter-end inventories by a rational method based on the preceding fiscal year's physical inventory count, without conducting a physical inventory count.

The Company writes down inventory from book value to estimated net realizable value only when its utility has clearly diminished. In the case of inventory expected to be disposed of and slow-moving inventory with a turnover period that extends beyond the Company's operating cycle, the Company writes the inventory down to its estimated liquidation value. Such inventories are carried at their written-down book value, unless their value was deemed to have substantially changed during the second quarter of the fiscal year under review.

(3) Fixed-asset depreciation method
For fixed asset depreciated by the declining-balance method, the Company calculates quarterly

depreciation expense by prorating annual depreciation expense. For certain consolidated subsidiaries, quarterly depreciation expense is calculated by prorating annual depreciation expense based on a budget that factors in expected acquisitions, sales, and disposals of fixed assets during the fiscal year.

(4) Deferred-tax asset and liability calculation method

To assess deferred assets' collectability, the Company uses tax planning and earnings forecasts used in the preceding fiscal year if it deems that the operating environment and status of temporary differences have not changed substantially since the preceding fiscal year-end.

If the operating environment or status of temporary differences is deemed to have changed substantially since the preceding fiscal year-end, the Company uses said tax planning and earnings forecasts adjusted to reflect the changes' impact.

(5) Elimination of unrealized gains/losses on inventories

For some products, the Company calculates unrealized gains/losses on inventories using the gain/loss rate used in the preceding fiscal year or quarter or a gain/loss rate based on rational budgeting, unless business conditions are deemed to have changed substantially from the preceding fiscal year or quarter.

Accounting procedures specific to preparation of quarterly consolidated financial statements

The Company calculates tax expense by rationally estimating its effective tax rate after application of deferred-tax accounting to pretax net income for the fiscal year that includes the second quarter under review and multiplying quarterly pretax net income by said estimated effective tax rate. If unable to use the estimated effective tax rate, the Company calculates tax expense by multiplying the statutory effective tax rate by quarterly pretax net income adjusted to reflect material differences other than temporary differences.

Income taxes are reported inclusive of income tax adjustments.

3) Changes in accounting principles, procedures, or presentation methods applicable to preparation of quarterly consolidated financial statements

Changes related to accounting standards

Change in accounting standard for construction revenue and cost

The Company previously used the percentage-of-completion method for accounting revenues associated mainly with construction contracts with a contract amount of three billion yen or more and a construction period of over one year, and other construction works were accounted for with the completed-contract method. Effective the first quarter of the fiscal year ending March 31, 2010, however, in conjunction with adoption of the *Accounting Standard for Construction Contracts* (ASBJ Statement No.15, December 27, 2007) and its accompanying *Guidance on Accounting Standard for Construction Contracts* (ASBJ Guidance No.18, December 27, 2007), the percentage-of-completion method was applied to construction contracts that were started during the first quarter ended June 30, 2009, for which certain elements were determinable with certainty as of September 30, 2009. The percentage of completion is estimated with the proportion-of-cost method, under which the percentage of construction completed during the period is calculated as the ratio of the construction cost incurred during that period relative to the total construction cost. The completed-contract method was applied to other works.

Due to this change, net sales for the second quarter of the fiscal year ending March 31, 2010 was 3,612 million yen higher, and operating loss, recurring loss, loss before income taxes and minority interests were each 293 million yen lower.

The change's impact by segment is detailed below under “Segment Information” in the “Consolidated Financial Statements” section.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	Millions of yen	
	As of September 30, 2009	As of March 31, 2009
Assets		
Current assets		
Cash on hand and in banks	24,875	31,955
Trade receivables	335,939	402,341
Merchandise and finished products	56,223	69,609
Work in process	347,462	325,578
Raw materials and supplies	81,275	81,253
Other current assets	95,828	88,169
Allowance for doubtful receivables	(2,492)	(3,111)
Total current assets	939,112	995,796
Fixed assets		
Net property, plant and equipment	294,075	284,117
Intangible assets		
Goodwill	986	1,106
Other	19,684	18,466
Total intangible assets	20,670	19,573
Investments and other assets		
Other	115,433	101,470
Allowance for doubtful receivables	(1,281)	(1,187)
Total investments and other assets	114,151	100,283
Total fixed assets	428,898	403,974
Total assets	1,368,010	1,399,770
Liabilities		
Current liabilities		
Trade payables	279,592	358,478
Short-term borrowings	130,526	157,082
Income taxes payable	3,520	8,710
Accrued bonuses	13,979	14,241
Provision for losses on construction contracts	15,438	20,930
Other provisions	12,306	15,049
Advances from customers	129,478	125,762
Other	143,442	129,751
Total current liabilities	728,283	830,006
Long-term liabilities		
Bonds payable	40,513	40,990
Long-term debt	206,803	140,715
Employees' retirement and severance benefits	84,547	79,969
Other provisions	9,850	3,980
Other	8,405	8,862
Total long-term liabilities	350,118	274,518
Total liabilities	1,078,402	1,104,525
Net assets		
Shareholders' equity		
Common stock	104,328	104,328
Capital surplus	54,281	54,281
Retained earnings	142,594	154,272
Treasury stock	(474)	(467)
Total shareholders' equity	300,730	312,415
Valuation and translation adjustments		
Net unrealized gains (losses) on securities	4,456	3,139
Gains (losses) on hedging items	2,051	(263)
Foreign currency translation adjustments	(22,639)	(24,850)
Total valuation and translation adjustments	(16,131)	(21,974)
Minority interests	5,009	4,804
Total net assets	289,607	295,245
Total net assets and liabilities	1,368,010	1,399,770

(2) Consolidated Statements of Income

	Millions of yen	
	Six months ended September 30, 2008	Six months ended September 30, 2009
Net sales	652,923	516,053
Cost of sales	547,662	448,226
Gross profit	105,260	67,827
Selling, general and administrative expenses		
Salaries and benefits	21,268	19,975
R&D expenses	17,687	17,213
Other	41,951	36,805
Total selling, general and administrative expenses	80,907	73,994
Operating income (loss)	24,353	(6,167)
Non-operating income		
Interest income	1,812	1,651
Dividend income	689	434
Gain on sale of marketable and investment securities	875	0
Equity income of non-consolidated subsidiaries and affiliates	3,310	2,582
Foreign exchange gain, net	3,022	3,277
Other	2,424	2,916
Total non-operating income	12,134	10,864
Non-operating expenses		
Interest expense	3,428	2,848
Other	2,341	3,071
Total non-operating expenses	5,770	5,920
Recurring profit (loss)	30,718	(1,223)
Extraordinary income		
Reversal of provision for environmental measures	-	1,212
Total extraordinary income	-	1,212
Extraordinary losses		
Provision for losses on damages suit	5,165	6,983
Total extraordinary losses	5,165	6,983
Income (loss) before income taxes and minority interests	25,552	(6,994)
Income taxes	12,588	(1,043)
Minority interests in net income of consolidated subsidiaries	627	343
Net income (loss)	12,335	(6,294)

(3) Consolidated Cash Flow Statement

	Millions of yen	
	Six months ended September 30, 2008	Six months ended September 30, 2009
Cash flow from operating activities		
Income (loss) before income taxes and minority interests	25,552	(6,994)
Depreciation and amortization	20,024	23,556
Increase (decrease) in provisions	1,830	1,289
Interest and dividend income	(2,501)	(2,086)
Interest expense	3,428	2,848
Investment (gain) loss on equity method	(3,310)	(2,582)
(Gain) loss on sale and disposal of property, plant, and equipment	(755)	322
(Increase) decrease in trade receivables	83,385	64,575
(Increase) decrease in inventories	(56,939)	(6,842)
Increase (decrease) in trade payables	(51,528)	(80,247)
Increase (decrease) in advances from customers	21,143	1,915
Other	(11,146)	(11,762)
Subtotal	29,183	(16,008)
Cash received for interest and dividends	2,630	2,354
Cash paid for interest	(3,464)	(2,661)
Cash paid for income taxes	(19,801)	(8,910)
Net cash provided by (used for) operating activities	8,547	(25,226)
Cash flow from investing activities		
Acquisition of property, plant and equipment and intangible assets	(30,787)	(36,141)
Proceeds from sale of property, plant and equipment and intangible assets	1,549	381
Acquisition of investments in securities	(24)	(102)
Proceeds from sale of investments in securities	1,626	10
Acquisition of equity interest in subsidiaries resulting in change in scope of consolidation	(943)	-
Acquisition of affiliates' shares	-	(1,331)
(Increase) decrease in short-term loans receivable	(371)	160
Additions to long-term loans receivable	(60)	(55)
Proceeds from collection of long-term loans receivable	84	71
Other	(658)	537
Net cash used for investing activities	(29,583)	(36,470)
Cash flow from financing activities		
Increase (decrease) in short-term borrowings	20,381	6,921
Proceeds from long-term debt	21,008	69,500
Repayment of long-term debt	(3,392)	(4,418)
Redemption of bonds payable	(17,518)	(10,000)
Acquisition of treasury stock	(11)	(6)
Cash dividends paid	(8,294)	(4,986)
Cash dividends paid to minority interests	(329)	(426)
Other	-	(19)
Net cash provided by financing activities	11,843	56,564
Effect of exchange rate changes	(360)	(1,629)
Increase (decrease) in cash and cash equivalents	(9,553)	(6,762)
Cash and cash equivalents at beginning of period	38,169	31,413
Cash and cash equivalents at end of period	28,616	24,651

(4) Notes on the going-concern assumption

Not applicable

(5) Segment Information

1) Information by industry segment

Six months ended September 30, 2008 (April 1, 2008 – September 30, 2008)

Millions of yen

	External sales	Intersegment sales	Total sales	Operating income
Shipbuilding	53,734	905	54,640	257
Rolling Stock & Construction Machinery	83,678	730	84,409	7,064
Aerospace	95,290	809	96,100	559
Gas Turbines & Machinery	91,790	8,484	100,274	4,785
Plant & Infrastructure Engineering	46,692	5,170	51,862	4,693
Consumer Products & Machinery	177,621	3,661	181,282	301
Hydraulic Machinery	47,296	4,355	51,652	5,044
Other	56,818	19,488	76,306	1,819
Total	652,923	43,606	696,529	24,525
Eliminations/corporation	-	(43,606)	(43,606)	(172)
Consolidated total	652,923	-	652,923	24,353

Notes: 1. Method of segmentation

Business segmentation is based on the categorization used by management.

2. Major products by industry segment

Industry segment	Major products
Shipbuilding	Ships and vessels
Rolling Stock & Construction Machinery	Rolling stock, construction machinery, snowplows, crushers
Aerospace	Aircrafts
Gas Turbines & Machinery	Jet engines, general-purpose gas turbine generators, movers
Plant & Infrastructure Engineering	Industrial equipment, boilers, environmental equipment, steel structures
Consumer Products & Machinery	Motorcycles, personal watercraft, all-terrain vehicles (ATV), utility vehicles, general-purpose gasoline engines, industrial robots
Hydraulic Machinery	Industrial hydraulic products
Other	Commercial activities, sales/order agency and intermediary activities, management of welfare facilities

3. Change in inventory valuation standard and method

The Company previously valued ordinary held-for-sale inventories mainly at cost by the specific identification, moving average, and FIFO methods. Effective the first quarter of the fiscal year ending March 31, 2009, in conjunction with adoption of the *Accounting Standard for Measurement of Inventories* (ASBJ Statement No. 9, as revised July 5, 2006), the Company switched to valuing inventories mainly at cost (writing down of inventories' carrying value to reflect impairment of the goods' utility) by the specific identification, moving average, and FIFO methods. Due to this change, operating income for the second quarter of the fiscal year ending March 31, 2009, in the Rolling Stock & Construction Machinery segment was 388 million yen lower; in the Aerospace segment, 390 million yen lower; in the Gas Turbines & Machinery segment, 644 million yen lower; in the Plant & Infrastructure Engineering segment, 31 million yen lower; in the Consumer Products & Machinery segment, 389 million yen lower; in the Hydraulic Machinery segment, 127 million yen lower.

4. Change in useful life for property, plant and equipment

The Company and its consolidated subsidiaries in Japan have revised machinery's useful life pursuant to 2008 amendments to the tax code. Due to this change, operating income for the second quarter of the fiscal year ending March 31, 2009, in the Shipbuilding business was 261 million yen lower; in the Rolling Stock & Construction Machinery segment, 187 million yen lower; in the Aerospace segment, 115 million yen lower; in the Gas Turbines & Machinery segment, 110 million yen lower; in the Plant & Infrastructure Engineering segment, 25 million yen lower; in the Consumer Products & Machinery segment, 84 million yen lower; and in the Other segment, 15 million yen lower; while in the Hydraulic Machinery segment, it was 58 million yen higher.

Six months ended September 30, 2009 (April 1, 2009 – September 30, 2009)

Millions of yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Shipbuilding	65,261	857	66,118	1,433
Rolling Stock	80,142	578	80,720	3,273
Aerospace	73,322	1,097	74,419	2,646
Gas Turbines & Machinery	83,446	9,800	93,247	638
Plant & Infrastructure Engineering	35,745	3,990	39,736	1,098
Consumer Products & Machinery	106,252	1,179	107,432	(16,609)
Hydraulic Machinery	29,006	3,620	32,626	1,991
Other	42,876	15,351	58,227	(311)
Total	516,053	36,476	552,529	(5,839)
Eliminations/corporation	-	(36,476)	(36,476)	(328)
Consolidated total	516,053	-	516,053	(6,167)

Notes: 1. Method of segmentation

Business segmentation is based on the categorization used by management.

2. Major products by industry segment

Industry segment	Major products
Shipbuilding	Ships and vessels
Rolling Stock	Rolling stock, snowplows, crushers
Aerospace	Aircrafts
Gas Turbines & Machinery	Jet engines, general-purpose gas turbine generators, movers
Plant & Infrastructure Engineering	Industrial equipment, boilers, environmental equipment, steel structures
Consumer Products & Machinery	Motorcycles, personal watercraft, all-terrain vehicles (ATV), utility vehicles, general-purpose gasoline engines, industrial robots
Hydraulic Machinery	Industrial hydraulic products
Other	Construction machinery, commercial activities, sales/order agency and intermediary activities, management of welfare facilities

3. Change in method of segmentation

In October 2008, the Company, Hitachi Construction Machinery Co., Ltd., and TCM Corporation reached an agreement on forming an alliance with respect to their wheel loader businesses. The alliance is to involve (i) joint research and development and (ii) a spin-off of the Company's wheel loader operation into a newly created subsidiary of the Company, and Hitachi's investment in that subsidiary.

In accord with the agreement, the construction machinery business was spun-off in April 2009 and succeeded by the Company's subsidiary, KCM Corporation. As a result, said business's relationship with the Rolling Stock & Construction Machinery segment was weakened and effective the first quarter of the fiscal year ending March 31, 2010, it was therefore shifted from the Rolling Stock & Construction Machinery segment to the Other segment.

Due to this change, compared with what they would have been under the previous method, net sales for the second quarter of the fiscal year ending March 31, 2010, in the Rolling Stock segment was 7,997 million yen lower (including 8,198 million yen of external sales) and in the Other segment, 7,882 million yen higher (including 8,198 million yen of external sales). By the same comparison, operating income in the Rolling Stock segment was 1,441 million yen higher, while operating loss in the Other segment was 1,441 million yen higher.

4. Change in accounting standard for construction revenue and cost

As stated under the heading “Changes related to accounting standards” in part 4., 3) of the “Qualitative Information and Financial Statements” section, the Company previously used the percentage-of-completion method for accounting of revenues associated mainly with construction contracts with a contract amount of three billion yen or more and a construction period of over one year, and other construction works were accounted for with the completed-contract method. Effective the first quarter of the fiscal year ending March 31, 2010, however, in conjunction with adoption of the *Accounting Standard for Construction Contracts* (ASBJ Statement No.15, December 27, 2007) and its accompanying *Guidance on Accounting Standard for Construction Contracts* (ASBJ Guidance No.18, December 27, 2007), the percentage-of-completion method was applied to construction contracts that were started during the first quarter ended June 30, 2009, for which certain elements were determinable with certainty as of September 30, 2009. The percentage of completion is estimated with the proportion-of-cost method, under which the percentage of construction completed during the period is calculated as the ratio of the construction cost incurred during that period relative to the total construction cost. The completed-contract method was applied to other works.

Due to this change, net sales for the second quarter of the fiscal year ending March 31, 2010, in the Shipbuilding segment was 2,201 million yen higher; in the Gas Turbines & Machinery segment, 1,199 million yen higher; and in the Plant & Infrastructure Engineering segment, 211 million yen higher. Also due to the change, operating income in Shipbuilding segment was 90 million yen higher; in the Gas Turbines & Machinery segment was 150 million yen higher; and in the Plant & Infrastructure Engineering segment was 52 million yen higher.

2) Information by geographic area

Six months ended September 30, 2008 (April 1, 2008 – September 30, 2008)

Millions of yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Japan	465,767	119,155	584,922	17,049
North America	106,347	12,943	119,291	(1,237)
Europe	56,119	2,539	58,658	1,100
Asia	19,856	19,298	39,155	1,916
Other areas	4,832	122	4,955	304
Total	652,923	154,060	806,984	19,134
Eliminations/corporate	-	(154,060)	(154,060)	5,218
Consolidated total	652,923	-	652,923	24,353

Notes: 1. Classification method of geographic segment: by geographic proximity

2. Major countries or regions in each segment other than Japan:

North America	The U.S.A. and Canada
Europe	The Netherlands, the United Kingdom, and Germany
Asia	Thailand, Indonesia, the Philippines, and Korea
Other areas	Australia and Brazil

3. Change in inventory valuation standard and method

The Company previously valued ordinary held-for-sale inventories mainly at cost by the specific identification, moving average, and FIFO methods. Effective the first quarter of the fiscal year ending March 31, 2009, in conjunction with adoption of the *Accounting Standard for Measurement of Inventories* (ASBJ Statement No. 9, as revised July 5, 2006), the Company switched to valuing inventories mainly at cost (writing down of inventories' carrying value to reflect impairment of the goods' utility) by the specific identification, moving average, and FIFO methods. Due to this change, operating income for the second quarter of the fiscal year ending March 31, 2009, in Japan was 1,971 million yen lower.

4. Change in useful life for property, plant and equipment

The Company and its consolidated subsidiaries in Japan have revised machinery's useful life pursuant to 2008 amendments to the tax code. Due to this change, operating income for the second quarter of the fiscal year ending March 31, 2009, in Japan was 742 million yen lower.

Six months ended September 30, 2009 (April 1, 2009 – September 30, 2009)

Millions of yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Japan	392,484	67,195	459,679	(6,547)
North America	66,935	8,531	75,467	(2,171)
Europe	33,700	887	34,588	929
Asia	19,299	22,845	42,145	3,337
Other areas	3,633	85	3,718	49
Total	516,053	99,545	615,599	(4,402)
Eliminations/corporate	-	(99,545)	(99,545)	(1,765)
Consolidated total	516,053	-	516,053	(6,167)

Notes: 1. Classification method of geographic segment: by geographic proximity

2. Major countries or regions in each segment other than Japan:

North America	The U.S.A. and Canada
Europe	The Netherlands, the United Kingdom, and Germany
Asia	Thailand, Indonesia, the Philippines, and Korea
Other areas	Australia and Brazil

3. Change in accounting standard for construction revenue and cost

As stated under the heading “Changes related to accounting standards” in part 4., 3) of the “Qualitative Information and Financial Statements” section, the Company previously used the percentage-of-completion method for accounting revenues associated mainly with construction contracts with a contract amount of three billion yen or more and a construction period of over one year, and other construction works were accounted for with the completed-contract method. Effective the first quarter of the fiscal year ending March 31, 2010, however, in conjunction with adoption of the *Accounting Standard for Construction Contracts* (ASBJ Statement No.15, December 27, 2007) and its accompanying *Guidance on Accounting Standard for Construction Contracts* (ASBJ Guidance No.18, December 27, 2007), the percentage-of-completion method was applied to construction contracts which were started during the first quarter ended June 30, 2009, for which certain elements were determinable with certainty as of September 30, 2009. The percentage of completion is estimated with the proportion-of-cost method, under which the percentage of construction completed during the period is calculated as the ratio of the construction cost incurred during that period relative to the total construction cost. The completed-contract method was applied to other works.

Due to this change, net sales for the second quarter of the fiscal year ending March 31, 2010, in Japan was 3,612 million yen higher, while operating loss in Japan was 293 million yen lower.

2. Overseas sales

Six months ended September 30, 2008 (April 1, 2008 – September 30, 2008)

Millions of yen

	Overseas sales	Consolidated net sales	Ratio of overseas sales to consolidated sales (%)
North America	148,385	-	22.7
Europe	68,378	-	10.4
Asia	74,081	-	11.3
Other areas	71,594	-	10.9
Total	362,439	652,923	55.5

Notes: 1. "Overseas sales" includes sales by the Company and its consolidated subsidiaries to the countries and regions other than Japan.
2. Classification method of geographic segment: by geographic proximity
3. Major countries or regions in each segment:

North America	The U.S.A. and Canada
Europe	The United Kingdom, France, the Netherlands, Italy and Spain
Asia	China, Korea, Taiwan and the Philippines
Other areas	Panama, The Bahamas, Brazil and Australia

Six months ended September 30, 2009 (April 1, 2009 – September 30, 2009)

Millions of yen

	Overseas sales	Consolidated net sales	Ratio of overseas sales to consolidated sales (%)
North America	108,843	-	21.0
Europe	43,738	-	8.4
Asia	74,718	-	14.4
Other areas	45,446	-	8.8
Total	272,746	516,053	52.8

Notes: 1. "Overseas sales" includes sales by the Company and its consolidated subsidiaries to the countries and regions other than Japan.
2. Classification method of geographic segment: by geographic proximity
3. Major countries or regions in each segment:

North America	The U.S.A. and Canada
Europe	The United Kingdom, Germany, France, Italy, and the Netherlands
Asia	China, Taiwan, the Philippines, Indonesia and Korea
Other areas	Panama, Australia and Brazil

(6) Note on Significant Changes in the Amount of Shareholders' Equity

Not applicable

6. Other

Orders and sales (consolidated)

Effective the first quarter of the fiscal year ending March 31, 2010, the Construction Machinery business was reclassified from the Rolling Stock & Construction Machinery segment into the Other segment.

Due to this change, compared with what they would have been under the previous method in the six months ended September 30, 2009, orders received in the Rolling Stock segment were 7,148 million yen lower, and in the Other segment, higher by the same amount. Also due to the change, net sales in the Rolling Stock segment were 8,198 million yen lower, and in the Other segment, higher by the same amount. Order backlog in the Rolling Stock segment was 2,694 million yen lower, and in the Other segment, higher by the same amount.

1) Orders received

	Six months ended September 30, 2008		Six months ended September 30, 2009		Year ended March 31, 2009	
	million yen	% of total	million yen	% of total	million yen	%
Shipbuilding	58,443	8.1	2,728	0.6	71,512	4.6
Rolling Stock	136,098	18.9	44,584	11.0	264,603	17.1
Aerospace	58,366	8.1	46,545	11.5	239,176	15.5
Gas Turbines & Machinery	119,369	16.6	99,897	24.7	355,517	23.0
Plant & Infrastructure Engineering	49,032	6.8	32,532	8.0	83,648	5.4
Consumer Products & Machinery	177,621	24.7	106,252	26.3	336,459	21.8
Hydraulic Machinery	55,097	7.6	27,536	6.8	84,142	5.4
Other	63,237	8.8	42,952	10.6	105,528	6.8
Total	717,266	100.0	403,029	100.0	1,540,589	100.0

Note: The Consumer Products & Machinery segment's orders received are equal to its net sales as production is based mainly on estimated demand.

2) Net sales

	Six months ended September 30, 2008		Six months ended September 30, 2009		Year ended March 31, 2009	
	million yen	% of total	million yen	% of total	million yen	%
Shipbuilding	53,734	8.2	65,261	12.5	126,426	9.4
Rolling Stock	83,678	12.8	80,142	15.4	186,454	13.9
Aerospace	95,290	14.5	73,322	14.1	200,424	14.9
Gas Turbines & Machinery	91,790	14.0	83,446	16.1	195,156	14.5
Plant & Infrastructure Engineering	46,692	7.1	35,745	6.8	105,178	7.8
Consumer Products & Machinery	177,621	27.2	106,252	20.5	336,459	25.1
Hydraulic Machinery	47,296	7.2	29,006	5.5	84,919	6.3
Other	56,818	8.7	42,876	8.2	103,579	7.7
Total	652,923	100.0	516,053	100.0	1,338,597	100.0

3) Order backlog

	End-Fiscal 2009 (March 31, 2009)		End-H1 Fiscal 2010 (September 30, 2009)		End-H1 Fiscal 2009 (September 30, 2008)	
	million yen	% of total	million yen	% of total	million yen	%
Shipbuilding	356,937	21.0	291,772	18.3	421,517	26.1
Rolling Stock	478,565	28.1	445,329	28.0	484,026	30.0
Aerospace	286,600	16.8	254,072	16.0	215,310	13.3
Gas Turbines & Machinery	405,196	23.8	401,857	25.3	278,575	17.3
Plant & Infrastructure Engineering	112,162	6.6	108,918	6.8	137,505	8.5
Consumer Products & Machinery	-	-	-	-	-	-
Hydraulic Machinery	28,539	1.6	27,069	1.7	37,116	2.3
Other	31,160	1.8	34,981	2.2	35,631	2.2
Total	1,699,162	100.0	1,564,001	100.0	1,609,684	100.0

Supplementary information on earnings forecasts for the fiscal year ending March 31, 2010

(1) Consolidated earnings outlook

Billions of yen

	Outlook for the year ending March 31, 2010 (fiscal 2010)			Fiscal 2009 (ended March 31, 2009) (actual)
	Revised forecast (A)	Forecast issued April 28, 2009 (B)	Change (A – B)	
Net sales	1,200.0	1,240.0	(40.0)	1,338.5
Operating income	5.0	5.0	-	28.7
Recurring profit	10.0	10.0	-	38.7
Net income	3.0	6.0	(3.0)	11.7

Orders received	1,080.0	1,180.0	(100.0)	1,540.5
Before-tax ROIC (%)	1.5%	2.6%	(1.1)%	4.5%
R&D expenses	38.0	40.0	(2.0)	38.2
Capital expenditures	71.0	78.0	(7.0)	82.4
Depreciation/amortization	52.0	54.0	(2.0)	44.3
Number of employees at end of period *Number of employees outside of Japan included therein	32,100 7,700*	33,000 8,400*	(900) (700)*	32,266 7,955*

Notes: 1. The expected foreign exchange rate used for the outlook: ¥90=US$1, ¥130=1 Euro

2. Before-tax ROIC = (income before income taxes + interest expense) / invested capital

3. Capital expenditures represent the total of newly recorded property, plant and equipment and newly recorded intangible assets. Depreciation/amortization represents depreciation/amortization expenses for property, plant and equipment and intangible assets.

(2) Outlook by industry segment

1) Net sales and operating income (loss)

Billions of yen

	Outlook for the year ending March 31, 2010 (fiscal 2010)						Fiscal 2009 (ended March 31, 2009) (actual)	
	Revised forecast (A)		Forecast issued April 28, 2009 (B)		Change (A – B)			
	Net sales	Operating income (loss)	Net sales	Operating income (loss)	Net sales	Operating income (loss)	Net sales	Operating income (loss)
Shipbuilding	150.0	3.5	150.0	3.5	-	-	126.4	(1.0)
Rolling Stock	165.0	9.0	170.0	9.0	(5.0)	-	150.3	12.3
Aerospace	180.0	2.5	190.0	2.5	(10.0)	-	200.4	(4.1)
Gas Turbines & Machinery	200.0	7.0	200.0	7.0	-	-	195.1	11.0
Plant & Infrastructure Engineering	100.0	6.0	95.0	4.0	5.0	2.0	105.1	8.9
Consumer Products & Machinery	240.0	(26.0)	260.0	(26.0)	(20.0)	-	336.4	(10.1)
Hydraulic Machinery	65.0	3.0	65.0	3.0	-	-	84.9	8.3
Other	100.0	0.0	110.0	2.0	(10.0)	(2.0)	139.6	3.3
Total	1,200.0	5.0	1,240.0	5.0	(40.0)	-	1,338.5	28.7

2) Orders received

Billions of yen

	Outlook for the year ending March 31, 2010 (fiscal 2010)			Fiscal 2009 (ended March 31, 2009) (actual)
	Revised forecast (A)	Forecast issued April 28, 2009 (B)	Change (A – B)	
Shipbuilding	50.0	110.0	(60.0)	71.5
Rolling Stock	140.0	150.0	(10.0)	235.0
Aerospace	160.0	170.0	(10.0)	239.1
Gas Turbines & Machinery	220.0	220.0	-	355.5
Plant & Infrastructure Engineering	90.0	80.0	10.0	83.6
Consumer Products & Machinery	240.0	260.0	(20.0)	336.4
Hydraulic Machinery	70.0	70.0	-	84.1
Other	110.0	120.0	(10.0)	135.0
Total	1,080.0	1,180.0	(100.0)	1,540.5

Note: The construction machinery business, which was previously included in the Rolling Stock & Construction Machinery segment, was spun-off in April 2009 to become KCM Corporation. Hitachi Construction Machinery Co., Ltd., subsequently invested capital in, entered into business alliance with, KCM Corporation. As a result, said business's relationship with the Rolling Stock & Construction Machinery segment was weakened, and effective the fiscal year ending March 31, 2010, it was therefore included in the "Other" segment in the above segment outlook.

For reference, the construction machinery business's sales, income (loss), and orders received for the year ended March 31, 2009, were included in "Other" above.